

**MARION, HOWELL, OCEOLA & GENOA  
SEWER AND WATER AUTHORITY**

**Report on Audit of Financial Statements  
And Supplementary Information**

**For the Year Ended September 30, 2013**

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**SEWER & WATER AUTHORITY BOARD**

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Vice-Chairman - Robert Hanvey  
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Member - Michael Coddington  
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Member - Lance Schuhmacher  
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**UTILITY DIRECTOR**

Dr. Gregory Tatara

**ENGINEER**

Tesha Humphriss, PE

**SEWER & WATER AUTHORITY AUDITORS**

Pfeffer, Hanniford & Palka  
Certified Public Accountants

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January 15, 2014

Marion, Howell, Oceola & Genoa  
Sewer & Water Authority  
2911 Dorr Road  
Brighton, Michigan 48116

**INDEPENDENT AUDITORS' REPORT**

Honorable Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of Marion, Howell, Oceola & Genoa Sewer & Water Authority as of and for the year ended September 30, 2013, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Marion, Howell, Ocoila & Genoa Sewer & Water Authority as of September 30, 2013, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 7 - 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion, Howell, Ocoila & Genoa Sewer & Water Authority's basic financial statements. The supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants

## **MANAGEMENT DISCUSSION AND ANALYSIS**

## **Management Discussion and Analysis**

### **September 30, 2013**

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Within this section of the Marion, Howell, Ocala & Genoa Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2013. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

#### **Overview of the Financial Statements**

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

#### ***Government-wide Financial Statements***

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these authority-wide statements is the Statement of Net Position. This is the authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second authority-wide statement is the Statement of Revenues, Expenses and Changes in Net Position which reports how the Authority's net position changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, there are no component units. There are no fund financial statements prepared by the Authority. However, there are six (6) funds maintained for internal accounting purposes which are combined for the financial statements.

#### ***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

### ***Other information***

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. The supplementary information includes a budget to actual for current year Authority operations.

### **Financial Analysis of the Authority as a Whole**

The Authority's net position at the end of the fiscal year was \$42,815,794. This is a \$(574,561) decrease over last year's net position of \$43,390,355.

The following tables provide a summary of the Authority's financial activities and changes in net position:

#### **Summary of Net Position**

	<u>9/30/2013</u>	<u>9/30/2012</u>	<u>Increase (Decrease)</u>
<b>ASSETS</b>			
Current and other assets	\$ 2,024,034	\$ 2,163,797	\$ (139,763)
Restricted/designated assets/other	2,772,731	5,147,561	(2,374,830)
Capital assets, net	<u>42,156,341</u>	<u>40,105,712</u>	<u>2,050,629</u>
<b>Total assets</b>	<u>46,953,106</u>	<u>47,417,070</u>	<u>(463,964)</u>
<b>LIABILITIES</b>			
Accounts payable	168,912	69,422	99,490
Due to others (from restricted/designated assets)	168,400	157,293	11,107
Bonds payable	<u>3,800,000</u>	<u>3,800,000</u>	
<b>Total liabilities</b>	<u>4,137,312</u>	<u>4,026,715</u>	<u>110,597</u>
<b>NET POSITION</b>			
Invested in capital assets	38,356,341	36,305,712	2,050,629
Restricted	2,719,530	5,091,511	(2,371,981)
Unrestricted	<u>1,739,923</u>	<u>1,993,132</u>	<u>(253,209)</u>
<b>Total net position</b>	<u>\$ 42,815,794</u>	<u>\$ 43,390,355</u>	<u>\$ (574,561)</u>

### Summary of Changes in Net Position

	<u>9/30/2013</u>	<u>9/30/2012</u>	<u>Increase (Decrease)</u>
<b>Operating revenues</b>	\$ 2,246,272	\$ 2,440,256	\$ (193,984)
<b>Operating expenses</b>			
System operations	3,119,097	2,972,417	146,680
Administrative	114,563	92,580	21,983
<b>Total operating expenses</b>	<u>3,233,660</u>	<u>3,064,997</u>	<u>168,663</u>
<b>Operating (loss)</b>	(987,388)	(624,741)	(362,647)
<b>Non-operating revenues and expenses, net</b>	(57,648)	145,170	(202,818)
<b>Capital contributions</b>	<u>470,475</u>	<u>416,100</u>	<u>54,375</u>
<b>Net income (loss)</b>	(574,561)	(63,471)	(511,090)
<b>Beginning net position</b>	<u>43,390,355</u>	<u>43,453,826</u>	<u>(63,471)</u>
<b>Ending net position</b>	<u><u>\$ 42,815,794</u></u>	<u><u>\$ 43,390,355</u></u>	<u><u>\$ (574,561)</u></u>

Operating revenues decreased significantly over the prior year by \$193,984 due to decreased billings (usage) and reimbursements from the DPW fund (Genoa Township for labor).

Operating expenses increased by \$168,663 over the prior year which appeared reasonable based on the increase in repairs and fixed labor charges.

### **Capital and Debt Administration**

The Authority added \$2,949,481 to construction in progress (CIP) which is made-up of various projects. Total CIP amounted to \$3,807,732 as of September 30, 2013. The total cost of the projects included under CIP will amount to approximately \$4.375 million over the next year. The Authority also capitalized \$1,139,866 for water system equipment. Developers contributed a total of \$470,475 toward the system infrastructure.

The Authority has \$3,800,000 in outstanding long-term debt used to fund the various expansion projects.

### **Economic Factors and Next Year's Goals**

The Authority's financial outlook has improved over the prior year. The population in the service area is expected to grow 3 - 4% over the next year. New hook-ups to the water system are projected to grow between 15 to 20 new users in the next year.

The Authority realizes rates will need to be reviewed for continued increases in order to keep-up with an aging system's depreciation.

### **Contacting the Authority's Financial Management**

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

## **FINANCIAL STATEMENTS**

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013**

**ASSETS**

**CURRENT ASSETS**

Cash - operations	\$	987,868	
Accounts receivable - water operations, net		941,451	
Due from Genoa Township (related party)		18,784	
Account receivable - grant		13,551	
Due from others		2,380	
Inventory		60,000	
<b>Total current assets</b>			\$ 2,024,034

**RESTRICTED/DESIGNATED ASSETS**

Cash - expansion		502,729	
Cash - equipment replacement/improvement		1,235,358	
Cash - escrows		169,040	
Cash - debt reserve		812,404	
<b>Total restricted/designated assets</b>			2,719,531

**CAPITAL ASSETS**

Land		408,982	
Water system		53,184,983	
Equipment		135,595	
Construction in progress		3,807,732	
		57,537,292	
Less accumulated depreciation		(15,380,951)	
<b>Net property, plant and equipment</b>			42,156,341

**OTHER ASSETS, NET OF AMORTIZATION OF \$3,800**

Bond discount			53,200
<b>Total assets</b>			<u>46,953,106</u>

**LIABILITIES**

**CURRENT LIABILITIES (from unrestricted assets)**

Accounts payable - water operations (includes \$6,297 due to related parties)		166,818	
Accrued wages		2,094	
<b>Total current liabilities (from unrestricted assets)</b>			168,912

**CURRENT LIABILITIES (from restricted/designated assets)**

Due to others - escrows			168,400
<b>Total current liabilities</b>			337,312

**LONG-TERM LIABILITY (from restricted assets)**

Bonds payable			3,800,000
<b>Total liabilities</b>			<u>4,137,312</u>

**NET POSITION**

**NET POSITION**

Invested in capital assets, net of related debt		38,356,341	
Restricted		2,719,530	
Unrestricted		1,739,923	
<b>Total net position</b>			<u>\$ 42,815,794</u>

The accompanying notes are an integral part of these financial statements

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**OPERATING REVENUES**

Billings - operations	\$ 2,182,114	
Meter sales - net	5,425	
DPW - Reimbursement	45,182	
Grant - income	<u>13,551</u>	
<b>Total operating revenues</b>		<u>\$ 2,246,272</u>

**OPERATING EXPENSES**

Labor - contract	835,121	
Licenses, fees, permits	5,591	
Chemicals and supplies	125,943	
Repairs and maintenance	392,586	
Lime sludge removal	37,911	
Lab supplies	25,002	
Utilities	210,864	
Telephone	7,516	
Meters and supplies for meters	27,405	
Depreciation	1,396,079	
Amortization	2,850	
Small equipment	5,610	
Backflow Prevention Program	17,770	
Wellhead protection	<u>28,849</u>	
<b>Total operating expenses</b>		3,119,097

**ADMINISTRATION EXPENSES**

Office expenses	13,998	
Per diem - board members	17,650	
Bookkeeping	8,465	
Payroll taxes	1,892	
Accounting and audit fees	22,775	
Insurance	18,523	
Administration - trailer occupancy	3,750	
Consulting and engineering	<u>27,510</u>	
<b>Total administration expenses</b>		<u>114,563</u>
<b>Total expenses</b>		<u>3,233,660</u>

**OPERATING (LOSS)**

(987,388)

**NON-OPERATING REVENUES AND EXPENSES**

Interest income	6,169	
Rental income	21,425	
Other income	41,409	
Bond interest	<u>(126,651)</u>	
<b>Total non-operating revenues and expenses (net)</b>		(57,648)

**CAPITAL CONTRIBUTIONS**

Developer contributions - additions to system		<u>470,475</u>
<b>Net (loss)</b>		(574,561)

**NET POSITION, OCTOBER 1, 2012**

43,390,355

**NET POSITION, SEPTEMBER 30, 2013**

\$ 42,815,794

The accompanying notes are an integral part of these financial statements

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES**

Receipts from customers	\$ 2,369,963	
Payments to vendors	<u>(1,726,515)</u>	
<b>Net cash from operating activities</b>		\$ 643,448

**CASH FLOWS FROM (USED IN) CAPITAL AND RELATED**

**FINANCING ACTIVITIES**

Acquisition of capital assets/construction	(2,976,233)	
Miscellaneous income	41,409	
Bond interest	<u>(126,651)</u>	
<b>Net cash flows (used in) capital and related financing activities</b>		(3,061,475)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	6,169	
Rental income	<u>21,425</u>	
<b>Net cash from investing activities</b>		<u>27,594</u>

<b>Decrease in cash</b>	(2,390,433)
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<b>CASH AT OCTOBER 1, 2012</b>	<u>6,097,831</u>
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<b>CASH AT SEPTEMBER 30, 2013</b>	<u><u>\$ 3,707,398</u></u>
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**RECONCILIATION OF OPERATING (LOSS) TO NET CASH  
FROM (USED IN) OPERATING ACTIVITIES**

Operating (loss)	\$ (987,388)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities	
Depreciation expense	1,396,079
Amortization expense	2,850
Changes in assets and liabilities	
Receivables, net	123,691
Due to others, net	<u>108,216</u>
<b>Net cash from operating activities</b>	<u><u>\$ 643,448</u></u>

**NON-CASH INVESTING, FINANCING AND OPERATING ACTIVITY**

The Authority received developer contributions of water main and other infrastructure in the amount of:	<u>\$ 470,475</u>
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<b>TOTAL NON-CASH INVESTING, FINANCING AND OPERATING ACTIVITY</b>	<u><u>\$ 470,475</u></u>
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The accompanying notes are an integral part of these financial statements

## **NOTES TO FINANCIAL STATEMENTS**

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

The Marion, Howell and Oceola Sewer & Water Authority was incorporated on February 28, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. On March 20, 1996 the articles of incorporation were amended to add Genoa Township to the Authority. The four incorporating municipal entities are Marion, Howell, Oceola and Genoa Townships. The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both. The Authority currently maintains a water system only.

The construction of a water system was completed in December of 1997. Thus, the Marion, Howell, Oceola and Genoa Sewer & Water Authority (MHOG) began operations in January of 1998.

The financing of the water system was done mostly by the sale of contract bonds which are retired through special assessments by the various townships through the Livingston County Department of Public Works. There were several construction funds set-up to administer the disbursements of funds to pay for the construction at the Livingston County Department of Public Works. Disbursements of funds have also been paid out of various funds maintained by the various townships for construction of the system.

The Authority board is composed of two voting representatives from each township. Each representative serves a one year term. The four townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective township.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net position, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net position; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

The Authority follows all pronouncements of the Governmental Accounting Standards Board and has elected not to follow the Financial Accounting Standards Board pronouncements after November 30, 1989.

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**C. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of currency on hand, demand deposits with financial institutions and short term, highly liquid investments with maturities of three (3) months or less at the date of acquisition.

**D. INVENTORY**

Inventory consists of various replacement parts used in meters and various equipment.

**E. CAPITAL ASSETS**

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 10 years for equipment and 5 to 40 years for buildings, structures, and improvements. The Authority's fixed asset policy is based on a \$3,000 threshold for assets which will last over one year.

**F. CONSTRUCTION-IN-PROGRESS**

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

**G. CAPITALIZATION OF INTEREST**

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

**H. PREMIUM, BOND DISCOUNT, AND ISSUANCE COSTS**

Bond discount, premium, and issuance costs are amortized over the term of the related bonds.

**I. REVENUES AND EXPENSES**

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**J. CAPITAL CONTRIBUTIONS**

Cash and capital assets are contributed to the Authority from developers, member municipalities, or other external parties. The value of property contributed to the Authority is reported as revenue on the Statement of Revenues, Expenses and Changes in Net Position under the caption "Capital Contributions".

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 2 - MANAGEMENT'S ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

Michigan Compiled Laws Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investments mentioned in the preceding paragraph.

Pursuant to GASB #3 and #40 the Authority is exposed to the following risk:

**Deposits - Custodial Credit Risk**

This is the risk that in the event of a bank failure, the Authority will not be able to recover its deposits. The Authority does not have a deposit policy for custodial credit risk. The Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

As of September 30, 2013, deposits in banks totaled \$3,724,228 which was exposed to custodial credit risk as follows:

Insured by FDIC	\$ 1,376,532
Uninsured and collateralized	1,657,195
Uninsured and uncollateralized	<u>690,501</u>
	<u><u>\$ 3,724,228</u></u>

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS - continued**

Accounts held by an official custodian of a government unit will be insured up to \$250,000 for the combined amount of all time and savings accounts (including NOW accounts) and up to \$250,000 for all demand deposit accounts (interest-bearing and non-interest-bearing) if the financial institution is located in the same state.

Pursuant to GASB #9 cash, cash equivalents and investments consist of the following:

**Cash and cash equivalents**

Demand deposits	
Checking accounts	\$ 2,763,729
Savings accounts	251,976
Money market (bank accounts)	<u>691,693</u>
<b>Total cash and cash equivalents</b>	<b><u><u>\$ 3,707,398</u></u></b>

The difference between the carrying amount of \$3,707,398 and the bank total of \$3,724,228 stem from outstanding items at September 30, 2013.

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of changes in construction in progress, property, plant and equipment:

	<b>Balance 10/1/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2013</b>
<b>NON DEPRECIABLE ASSETS</b>				
Land	\$ 408,982	\$	\$	\$ 408,982
Construction in progress	1,500,890	2,949,481	(642,639)	3,807,732
<b>Total Non Depreciable Assets</b>	<u>1,909,872</u>	<u>2,949,481</u>	<u>(642,639)</u>	<u>4,216,714</u>
<b>DEPRECIABLE ASSETS</b>				
Water system	52,045,117	1,139,866		53,184,983
Equipment	135,595			135,595
<b>Total Depreciable Assets</b>	<u>52,180,712</u>	<u>1,139,866</u>		<u>53,320,578</u>
<b>Total cost</b>	54,090,584	4,089,347	(642,639)	57,537,292
Accumulated depreciation	<u>(13,984,872)</u>	<u>(1,396,079)</u>		<u>(15,380,951)</u>
<b>Net property, plant and equipment</b>	<u>\$ 40,105,712</u>	<u>\$ 2,693,268</u>	<u>\$ (642,639)</u>	42,156,341
Less related debt				<u>(3,800,000)</u>
<b>Capital assets, net of related debt</b>				<u>\$ 38,356,341</u>

Construction in progress consists of several projects which are summarized as follows as of September 30, 2013:

<b><u>Project Name</u></b>	<b><u>Total Year-to-Date Cost</u></b>	<b><u>Total Estimated Costs</u></b>	<b><u>Percent Complete</u></b>
4.5 MGD - 3 projects	\$ 3,780,747	\$ 3,850,597	98%
M-59/Butler Water Main Improvements	<u>26,985</u>	<u>525,000</u>	<u>5%</u>
	<u>\$ 3,807,732</u>	<u>\$ 4,375,597</u>	87%

The 4.5 MGD consists of 3 projects which are:

- 500,000 Gallon Storage Tank
- Booster Pump Station
- Peavy Road Water Main

Management believes the construction in progress as of September 30, 2013 will be completed in the following year ending September 30, 2014.

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT - continued**

The total additions to the water system of \$4,089,347 include \$642,639 of prior year construction in progress for three projects which were completed at September 30, 2013 as follows:

<b><u>Project</u></b>	<b><u>Total Cost</u></b>
Industrial Drive VFD/Norton Road PRV	\$ 381,261
Foxfire Water Main Loop	117,870
Parking lot and building addition	143,508
<b>Total cost</b>	<b><u>\$ 642,639</u></b>

Other fixed asset additions to the system were as follows:

<b><u>Description</u></b>	<b><u>Cost</u></b>
Parking lot improvements (paid by O& M)	\$ 26,752
Water main additions (paid by developers)	470,475
<b>Subtotal</b>	<b>497,227</b>
Construction in progress capitalized	642,639
<b>Total depreciable assets added to water system</b>	<b><u>\$ 1,139,866</u></b>

Depreciation related to the water system and equipment is recorded as depreciation expense on the statement of revenues and expenses. Depreciation is recorded on the straight-line basis over the estimated useful life of the asset.

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 5 - DEBT OBLIGATIONS**

The Authority sold revenue bonds in the amount of \$3,800,000 in June 2012. The bond proceeds are being used to assist in financing several construction projects in the system. The debt obligation will be paid over the next 20 years. The interest rate ranges from 2% to 3.5%. The following is a schedule of future payment amounts.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/01/13 - 09/30/14	\$ 75,000	\$ 108,044	\$ 183,044
10/01/14 - 09/30/15	115,000	106,544	221,544
10/01/15 - 09/30/16	150,000	104,244	254,244
10/01/16 - 09/30/17	160,000	101,244	261,244
10/01/17 - 09/30/18	165,000	98,044	263,044
10/01/18 - 09/30/23	925,000	435,569	1,360,569
10/01/23 - 09/30/28	1,130,000	297,638	1,427,638
10/01/28 - 09/30/32	1,080,000	96,250	1,176,250
<b>Total</b>	<b>\$ 3,800,000</b>	<b>\$ 1,347,577</b>	<b>\$ 5,147,577</b>

**NOTE 6 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll at the applicable township. As of September 30, 2013, \$120,933 of the outstanding \$941,451 accounts receivable went on the tax roll for collection. The Authority will receive the \$120,933 by March of 2014 through the tax collection process. The remaining accounts receivable of \$820,518 (\$941,451 - \$120,933) were under 90 days old as of September 30, 2013. As a result of an increase in bankruptcy cases, an allowance for doubtful accounts remains in the amount of \$23,000.

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 7 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

Genoa Township, an Authority member, performs billing, collection, system operation and management services for the Authority. During the year ended September 30, 2013 the total cost incurred for these services amounted to \$835,121. As of September 30, 2013 the Authority owed Genoa Township \$6,297.

Marion, Howell, Oceola & Genoa Sewer & Water Authority agreement with Genoa Township was effective April 1, 2012 and runs through March 31, 2016 (initial term). Marion, Howell, Oceola & Genoa Sewer & Water Authority pay Genoa Township a monthly fee of \$71,318 through March 31, 2014. The fee will be adjusted effective April 1, 2014 depending on such factors as staffing, financial assessment and the amount in fund balance of Genoa Township's Department of Public Work's Fund.

**NOTE 9 - BUDGET INFORMATION**

The Authority adopts an annual budget for operations of the water system prior to the fiscal year. The budget is amended from time to time to reflect economic reality.

The Authority excludes from the annual operating budget such items as:

- Depreciation
- Contributions/deposits into reserve cash accounts
- Expenditures from reserve cash accounts
- Interest income earned on reserve fund deposits

The Authority includes in the annual operating budget such items as:

- Major capital asset purchases from its Operations and Maintenance cash account
- Transfers to reserves from Operations and Maintenance cash account

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

**NOTE 9 - BUDGET INFORMATION – continued**

The following schedule is a reconciliation between the Statement of Revenues, Expenses and Changes in Net Position (GAAP) and the Schedule of Revenues, Expenses and Transfers - Budget to Actual (Non-GAAP, supplementary information).

**Per statement of Revenues, Expenses and Changes in Net Position**

Net (loss)	\$ (574,561)
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**Reconciling items**

Additions

Depreciation expense	\$ 1,396,079
Amortization expense	2,850
Repairs paid by reserved funds	<u>142,817</u>

**Total additions**

1,541,746

**Deductions**

Transfers to reserves	(429,651)
Interest income-designated	(2,460)
Developer contributions	(470,475)
Fixed assets purchased from O & M fund	<u>(26,752)</u>

**Total deductions**

(929,338)

**Net revenues over expenses and transfers per  
budget to actual report**

\$ 37,847

Under supplementary information is the final budget report approved by the Authority matched with actual amounts for the year ending September 30, 2013.

**NOTE 10 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 19, 2014 the date the financial statements were available to be issued. Management has determined the Authority did not have any material recognizable or nonrecognizable events.

## **SUPPLEMENTARY INFORMATION**

## MARION, HOWELL, OCEOLA &amp; GENOA SEWER &amp; WATER AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS - BUDGET TO ACTUAL - OPERATIONS ONLY  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

DESCRIPTION	Amended Budget for the Year End 9/30/2013	Actual for the Year End 9/30/2013	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Billings usage	\$ 1,999,870	\$ 2,042,462	\$ 42,592
Billings - debt charges	140,847	139,651	(1,196)
Income - other	13,000	41,409	28,409
Interest income	4,000	3,710	(290)
Meter income	5,425	5,425	
Tower rent - Howell	21,425	21,425	
DPW - reimbursements	45,182	45,182	
Grant income - wellhead protection	15,000	13,551	(1,449)
<b>Total revenue</b>	<b>2,244,749</b>	<b>2,312,815</b>	<b>68,066</b>
<b>EXPENSES</b>			
Accounting/audit	24,000	22,775	1,225
Back flow prevention program	18,000	17,770	230
Bookkeeping fees	7,800	7,725	75
Bookkeeping payroll service	850	740	110
Chemicals	125,000	125,943	(943)
Engineering - general	31,005	26,515	4,490
GIS - internist	995	995	
Insurance	25,000	18,523	6,477
Labor - fixed	835,000	835,121	(121)
Latson Road Interchange	5,000	3,750	1,250
Laboratory supplies	21,000	25,002	(4,002)
Licenses, fees, permits	8,500	5,591	2,909
Lime sludge removal	38,000	37,911	89
MXU program	27,500	27,405	95
Office expenses	15,000	13,832	1,168
Per diem board expenses	18,000	17,650	350
Payroll taxes	1,900	1,892	8
Repairs and maintenance			
Booster stations	20,000	20,741	(741)
Buildings	13,000	11,790	1,210
Towers	46,000	46,488	(488)
Generators	8,000	6,662	1,338
Grounds	7,000	34,398	(27,398)
Hydrants	62,000	63,044	(1,044)
All systems - common equipment	30,000	28,733	1,267
Plant equipment	80,000	72,519	7,481
Snow plow/lawn maintenance	14,000	13,707	293
Waterlines	75,000	74,197	803
SCADA	12,000	11,876	124
Service repairs	25,000	19,183	5,817
Telephone	7,500	7,516	(16)
Tools/supplies	5,000	5,610	(610)
Trans - out capital improvement	100,000	100,000	
Trans - out capital reserves	190,000	190,000	
Trans - out debt reserve	140,847	139,651	1,196
Utilities - electric	175,000	189,636	(14,636)
Utilities - gas	20,000	17,635	2,365
Utilities - other	5,000	3,593	1,407
Wellhead protection	35,000	28,849	6,151
<b>Total expenses</b>	<b>2,272,897</b>	<b>2,274,968</b>	<b>(2,071)</b>
<b>Net revenues/expenses</b>	<b>(28,148)</b>	<b>37,847</b>	<b>65,995</b>
<b>BEGINNING EQUITY - O &amp; M</b>	<b>1,819,896</b>	<b>1,819,896</b>	
<b>ENDING EQUITY - O &amp; M</b>	<b>\$ 1,791,748</b>	<b>\$ 1,857,743</b>	<b>\$ 65,995</b>

This schedule of Revenues, Expenses and Transfers - Budget to Actual - Operations Only is prepared to present revenues and expenses related to current operations only and include capital purchases and transfers to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information. See footnote for reconciliation of Budget to Actual report and Statement of Revenues, Expenses and Changes in Net Position.



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**PFEFFER ■ HANNIFORD ■ PALKA**  
*Certified Public Accountants*

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January 15, 2014

**Board of Trustees**

Marion, Howell, Oceola & Genoa Sewer & Water Authority (MHOG)  
2911 Dorr Road  
Brighton, MI 48116

Dear Honorable Board of Trustees:

In planning and performing our audit of the financial statements of Marion, Howell, Oceola & Genoa Sewer & Water Authority (MHOG) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Marion, Howell, Oceola & Genoa Sewer & Water Authority (MHOG)'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Marion, Howell, Oceola & Genoa Sewer & Water Authority (MHOG)'s internal control to be material weaknesses:

**Establish Control over the Financial Reporting Process:** Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the Authority. Management is as responsible for outsourced functions performed by a service provider as it would be if your personnel performed such functions. Specifically, management is responsible for management decisions and functions: for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the Authority's internal control.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

To provide oversight of the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures including the performance of the following functions:

- Reconcile general ledger amounts to the draft financial statements using grouping schedules provided by us.
- Review all supporting documentation and explanations for journal entries we propose and approve the entries.
- Review the adequacy of financial statement disclosures by completing a disclosure checklist or reviewing and approving the completed disclosure checklist we provide to you. Disclosure checklists are available from various sources or may be obtained from us.
- Review and approve schedules and calculations supporting amounts included in the notes to financial statements.
- Review and approve the cash flow worksheet used in preparing the statement of cash flows.
- Apply analytic procedures to the draft financial statements.
- Perform other procedures as considered necessary by management.

### **Response by Management**

Management believes the cost of hiring additional personnel exceeds the benefits of more control over the financial reporting process. Therefore, management has chosen to continue to request the auditors to prepare the financial statements.

**Segregate Accounting Duties:** A good system of internal control provides for a proper segregation of the accounting functions. The Authority does not have the proper segregation of duties over cash receipts and disbursements, accounts receivable, and accounts payable. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud. We recommend that management review the current assignment of accounting functions. Where possible, duties should be segregated to reduce the risk of errors or fraud. This is a common problem in small organizations such as this Authority and generally requires additional staff to remedy which may not be cost effective considering the Authority has limited financial resources.

### **Response by Management**

Management has reviewed the current assignment of accounting functions and believes duties have been segregated as much as feasibly possible to reduce the risk of errors or fraud. Management understands more staff would need to be hired in order to segregate duties further. Management does not believe the benefits of hiring additional staff would outweigh the costs.

### **Other Matter**

#### **Per-Diem Approvals**

In reviewing rates of pay to the Board members we noted actual increases for the fiscal year were as follows:

- All Board members increased monthly per-diem \$50;
- Treasurer increased monthly per-diem 3% for bookkeeping services;
- Secretary increased monthly per-diem \$25;
- Chairperson increased monthly per-diem \$25.

The minutes dated August 15, 2012 do not mention the Chairperson's increase of \$25. Based on notes taken by the Treasurer and others it appears the intent of the Board was to give the same increase of \$25 to the Secretary and Chairperson.

We suggest the Board approve a motion recognizing that the Chairperson was also included as part of the increase for the fiscal year ended September 30, 2013, if the Board believes this was the intent.

**Conclusion**

This letter does not affect our report dated January 15, 2014 on the financial statements of the Marion, Howell, Oceola & Genoa Sewer & Water Authority (MHOG).

We will review the status of these matters during our next audit engagement. We have already discussed these with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees and management of the Marion, Howell, Oceola & Genoa Sewer & Water Authority (MHOG) and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA

Certified Public Accountants